

DANMARKS NATIONALBANK

2 JUNE 2021

PORTFOLIO INVESTMENTS, APRIL 2021

Decline in foreign ownership of mortgage bonds

For a number of years, foreign investors have bought large amounts of Danish mortgage bonds and today they own more than a quarter of the entire Danish mortgage bond market. However, since last term month, foreign investors have sold both fixed and variable rate mortgage bonds (incl. adjustable rate mortgage bonds, ARM) for a total of kr. 19 billion. A significant part of the amount is due to the maturities of ARM bonds.

In the first months of 2021, the foreign ownership share of fixed and variable rate mortgage bonds (incl. ARM) has thus fallen to 34 per cent and 17 per cent, respectively. It is still 30-year fixed rate mortgage

bonds, of which the rest of the world has the largest ownership share of 35 per cent.

Historically large purchases from foreign investors

Overall, foreign investors' share of the Danish mortgage bond market has been rising since 2010. Here, the sovereign debt crisis in part of the euro area contributed to an increased demand for high-quality bonds outside the euro area, including Danish securities, which were considered a safe haven.

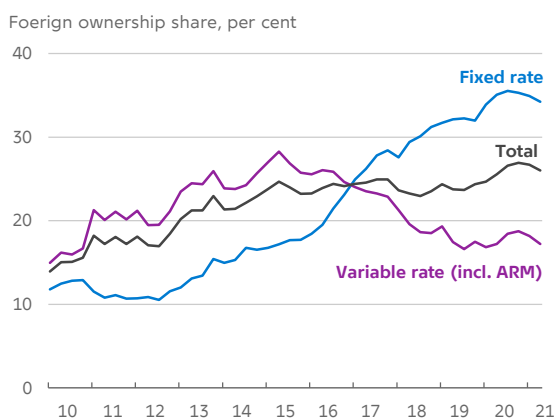
From variable to fixed rate mortgage bonds

After 2015, foreign investors began to reduce their holdings in variable-rate mortgage bonds (including ARM), whereas they continued to increase their holdings in fixed-rate mortgage bonds.

Foreign investors increasing demand for fixed-rate mortgage bonds since 2015 must, among other things, be seen in the light of foreign central banks' buy-back programmes, which have reduced the supply of other long-term bonds with high credit quality. For example, the European Central Bank expanded its buy-back programme in early 2015, and the Bank of Japan in 2016.

The reduced demand for bonds with variable interest rates coincided with the fact that Danish short-term interest rates fell significantly and became negative in 2015. However, it is not only interest rates that determine the investment decision. Foreign investors will typically hedge their currency risk from investments in Danish bonds. Currency hedging can either increase or decrease the total return for the investor.

Foreign investors have a large ownership share of Danish mortgage bonds with fixed interest rates



Note: Adjustable rate mortgage bonds, ARM, are included in the calculation of variable rate mortgage bonds. The calculation of the foreign ownership share of Danish mortgage bonds is most accurate in term months, which are in January, April, July and October each year, and therefore only data for the term months are referred to here.

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